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SENSITIVE
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SUBJECT: SCENESETTER FOR VISIT OF CODEL ROGERS TO MOSCOW,
APRIL 7-10

¶1. (SBU) Embassy Moscow warmly welcomes your visit to Russia next week. Your trip comes following the first meeting between President Obama and President Medvedev in London on April 1, which was seen by both sides as very positive and reaffirming the mutual desire to "reset" the U.S.-Russia relationship. While Russia cherishes this high-level engagement, which it sees as affirming its status as a global power, the political establishment has had the wind knocked out of it by the economic crisis, with which it is struggling to cope. With the Russian economy contracting rapidly, the fiscal accomplishments of the Putin years are quickly being erased, and the social compact of economic growth in exchange for political stagnation is coming under question. Russia again stands at a crossroads. It is in our interest that Russia engage on a new footing with the West, but after ten years of sharp policy conflicts that culminated in the Georgia war, we need to reinvest in our joint strategic interests and rebuild a badly eroded foundation of trust.

Rebuilding U.S.-Russian Relations

¶2. (SBU) The U.S. and Russia issued two joint statements following the Presidents' meeting: A Joint Statement defining areas where we will work together to address common challenges such as non-proliferation, the economic crisis, and terrorism, while seeking to resolve our differences over issues such as missile defense and European security; and a Joint Statement committing to negotiate a legally-binding follow-on agreement to the START Treaty which expires in December of this year. The latter effort will be the top priority this year, as we endeavor to reach agreement on a new treaty which will reduce the number of strategic offensive arms below the level of the 2002 Moscow Treaty, while maintaining a strong verification and transparency regime.

¶3. (SBU) Many commentators here have noted the positive "tone and spirit" of the Presidents' meeting, and have expressed the hope that it would translate into better cooperation and concrete actions. Still, the level of anti-Americanism in the official Russian media remains high, and the temptation to blame the U.S. for Russian problems, including the economic crisis, will persist. You will have an opportunity to ask your Russian interlocutors for their vision of U.S.-Russian relations under the new U.S. administration, and how best to manage a relationship that will be defined as much by cooperation as by competition. We share an important agenda, with on-going cooperation in safeguarding and reducing nuclear weapons stockpiles, preventing the emergence of a nuclear Iran, countering terrorism, advancing peace in the Middle East, pushing North Korea to wind down its nuclear program, and working collaboratively in space on projects that advance health and understanding of climate change.

Conclusion of a "123" agreement, set aside after the Georgia conflict, could open significant new cooperation and trade in civilian nuclear energy and build on our Global Nuclear Energy Partnership. Your interlocutors will also be looking for indications that the President will follow through on his commitment to assist Russia's accession into the World Trade Organization, and may press you for repeal of Jackson-Vanik. We do not lack for a positive agenda, but will need to rebuild an architecture to our bilateral relationship that allows wide-ranging and candid engagement on all issues of concern.

The Economic Crisis

14. (SBU) The international financial crisis has replaced the war with Georgia as the defining issue for Russia's political class and the Russian public, with the "real economy" now taking a hit -- GDP contracted by 7 percent in the first quarter of 2009, following years of robust growth. The crisis actually started in Russia earlier than elsewhere, as foreign investors reacted to Georgia by withdrawing capital, leading to a collapse of Russia's stock markets. Capital flight accelerated as the global financial crisis deepened and, adding to Russia's woes, the price of oil, gas and other commodities plunged and the ruble lost nearly 40 percent of its value.

15. (SBU) The weaknesses in the Russian economy, especially its lack of diversification and its dependence on foreign capital, were painfully exposed by the end of 2008. Even with growth rapidly contracting, inflation has remained in double-digits, complicating efforts to stimulate demand.

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That said, years of budget surpluses and rising oil prices had lifted the country's foreign currency reserves to almost \$600 billion, third highest in the world, and the government has used its strong fiscal position to respond to the crisis.

It committed more than \$200 billion of its reserves to a gradual depreciation of the ruble, which improved competitiveness while avoiding the panic that might have accompanied a sudden drop in the ruble (a la 1998) and another \$200 billion in budgetary resources via a substantial budget deficit to supply liquidity, recapitalize banks, assist corporations, and support social spending. Nevertheless, tight credit markets at home and falling demand globally are causing continued contraction and increased unemployment.

16. (SBU) Putin and Medvedev are as close to economic modernists as Russia has, holding the line on fiscal policy in the face of opposition from liberal and conservative forces that want more spending, but disagree on priorities. The real debate here is whether to resume efforts to modernize, open, and diversify the economy. The uptick in Soviet-era nostalgia and xenophobic violence that has accompanied this economic crisis is a reminder of the autarkic forces also at play here, who advocate an alternate vision of militarization and state intervention.

Tandem Politics

17. (SBU) A year after Medvedev's election, questions remain about Russia's political succession. As Prime Minister, Putin continues to play a major and possibly dominant role. Medvedev has yet to prove that he has the wherewithal to supersede Putin as the preeminent decisionmaker. Although there have recently been indications of some slight cracks in the unanimity between the two camps, there is little daylight between them on major decisions or domestic or foreign policy issues. There is intense speculation inside the Moscow beltway over whether the economic crisis will hasten Medvedev's rise or speed Putin's return to the Kremlin. Both men are polling in the mid-60's, but this reflects a drop

from Putin's 80 percent approval and a rise from Medvedev's 40 percent approval rate six months ago.

Key Issues

18. (SBU) In addition to seeking agreement on a post-START treaty and the economic crisis, the key priorities in our relationship with Russia are:

-- ECONOMIC DIALOGUE: Building on the G20 process, economic issues offer a way to generate early momentum in the bilateral relationship. Russia seeks to play a responsible role in coordinated global efforts to address the crisis and to reform the international financial architecture. In the Joint Statement, the two Presidents committed to launch an intergovernmental commission on trade and economic cooperation and to intensify our business dialogue.

-- IRAN: Russia has welcomed the Administration's willingness to engage in dialogue with Iran, but continues to balk at additional sanctions or other "sticks" if Iran is recalcitrant. In the Joint Statement, the two leaders recognized Iran's right under the NPT to a civilian nuclear program, but stressed that Iran needed to restore confidence in its exclusively peaceful nature, and fully implement all relevant UN and IAEA resolutions. Russia continues to juggle competing strategic interests as it works to prevent Tehran's nuclearization: it has strong trade, historical and cultural ties to Iran, values Iranian restraint in the North Caucasus and Central Asia, anticipates future arms and civilian nuclear energy deals, seeks oil and gas cooperation in the Caspian Sea, and credits Iran as an important peace process player.

-- MISSILE DEFENSE: Moscow continues to maintain that a U.S. missile defense system in eastern Europe is -- or could be -- aimed at Russia, and continues to threaten to deploy Iskander missiles in Kaliningrad if the U.S. deployment goes forward. Russia expects the new U.S. administration to revisit missile defense plans in Europe, and will argue that its offer of cooperation at the Qabala radar facility in Azerbaijan was a missed opportunity to present a common front against Iran. Russia's offer of cooperation was premised on the U.S. halting the development of radar and interceptor sites in the Czech Republic and Poland. Russia rejects the physics

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driving the geographic selection of the two sites, and the U.S. decision to provide Poland with Patriot batteries has been pocketed as evidence of the "anti-Russian" nature of the program. Since October 2007, we have proposed a number of transparency and confidence-building measures to reassure Russia, providing extensive technical briefings on the threat from Iran as well as on the characteristics of the system, showing that it could not be effective against Russia's nuclear arsenal. While Russia is slowly coming to accept that the threat of Iran developing a medium-range missile is increasing, it continues to oppose U.S. MD plans.

-- NATO/NEIGHBORHOOD: Although Russia welcomed NATO's decision to resume engagement in the NATO-Russia Council post-Georgia as a "return to realism," it continued its policy of demanding greater cooperation even as it decried the security organization as an existential threat to Russian security. Russia continues to strongly oppose NATO enlargement, particularly to Georgia and Ukraine, claiming that the U.S. promised at the time of German reunification that there would be no deployment of Alliance forces eastward. In the Joint Statement, the Presidents agreed to explore a dialogue on Medvedev's European Security Treaty (EST) proposal, which is less an initiative than an expression of Russia's dissatisfaction with existing security structures. While denying that Russia is seeking to reestablish a "sphere of influence," Moscow asserts that Russia and the former states of the Soviet Union have

"mutually privileged interests," and have made relations with the CIS its top foreign policy priority. Moscow uses this to justify its actions in Georgia in August 2008, asserting that it has a right to protect Russian citizens in countries where it has dispensed passports to former Soviet citizens. While we continue to disagree about Russia's actions in Georgia, both Presidents agreed that we must continue efforts toward a peaceful and lasting solution in the region.

-- AFGHANISTAN: Russia has signaled interest in playing a greater role in efforts to stabilize Afghanistan. Its Special Conference on Afghanistan in MoQW under auspices of the Shanghai Cooperation Organization brought together countries of the region, international organizations, and Europe and the U.S. to address counternarcotics and counterterrorism issues. In February, the U.S. and Russia reached agreement to allow transit of non-lethal U.S. equipment to ISAF across Russia. The first shipment of 100 containers successfully crossed Russian territory to Afghanistan in late February, and we expect more to follow soon. Russia has also hinted at the possibility of concluding an agreement to allow the transit of lethal equipment, but there has been no discussion to date.

-- MIDDLE EAST: Russia has expressed the intention of hosting a Moscow conference as the follow-on to Annapolis, possibly this summer. Russia has been a useful peace process partner, playing a positive role in the Quartet, and reinforcing U.S. messages in the region. We have differed in the past over the virtues of engagement with Hamas, Damascus, and Tehran, with Russia generally having little to show for its diplomatic efforts. Nevertheless, Russia's much improved relations with Israel, with whom it now has a visa-free regime and a vigorous strategic dialogue, and the presence of a pro-Israel lobby at home (tied to the substantial Israeli Russian community), has transformed Russia from its reflexively pro-Arab stance of Soviet days.

-- DEMOCRACY, HUMAN RIGHTS AND OTHER AREAS OF DISAGREEMENT: We have underscored to Russia that our efforts to reset the relationship do not mean we will compromise on our commitment to democracy and human rights. Both sides recognize that there are areas where we will disagree, but our goal is to minimize the harsh exchanges over those disagreements that characterized our relationship in recent years. We will continue to differ over issues such as missile defense, NATO enlargement, Russian arms sales to countries of concern, and Abkhazia and South Ossetia, but are committed to finding seek ways to address these differences more effectively.

The "Real Russia"

19. (SBU) The bright lights and vibrant post-industrial economy in Moscow mask the deeper economic problems that Russia faces beyond the capital's "beltway." Your day trip to Ulyanovsk region can help put your experiences in Moscow

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in perspective - the Ministry of Regional Development listed this region on the middle Volga as "critical" because of the expected problems of crisis-related unemployment. The region's economy is based on Soviet-era giants like the Aviastar manufacturing plant (which builds the world's largest production airplane) and the UAZ car factory - both of which are suffering from the economic slowdown. Politics in the region are dominated by the Governor Sergey Morozov, a "law and order" administrator from the Ministry of Internal Affairs who remains loyal to Putin and his vision for Russia. (Morozov once encouraged his subordinates to "work like Putin" and his administration sponsored a "Days of South Ossetia" festival to show support for the Medvedev/Putin decision to recognize the two Georgian separatist regions as independent states.) The region remains a ultra-conservative

region with strong patriotic feelings, flavored by
Soviet-flavored expectations for government administration of
the economy.

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